



Section 2

Telecommunications Business

1. Telecommunications Carriers

There were 12,518 telecommunications carriers in Japan at the end of fiscal 2003. New entrants during fiscal 2003 numbered 1,562 companies. Operators providing Internet services totaled 8,860 at the end of fiscal 2003.

Fiscal 2002 sales for the telecommunications business totaled 18.66 trillion yen (a 0.2% decrease from the previous fiscal year). Of this, sales of Type I telecommunications carriers accounted for 16.83 trillion yen (a 2.4% decrease from the previous fiscal year) and sales of Type II telecommunications carriers accounted for 1.83 trillion yen (a 26.6% increase over the previous fiscal year).

The call volume share of long-distance (inter-prefectural) communications carried by new common carriers (NCC) was 52.8% in fiscal 2002, accounting for more than half for the first time. The call volume share of NCCs in local (intra-prefectural) communications rose from 10.9% in fiscal 1997 to 39.0% in fiscal 2002. The international call volume share of NCCs increased to 60.5% in fiscal 2002, with competition getting fiercer.

2. Telecommunications Services

Ever since a subscriber telephone service was first introduced in 1890, Japan's telecommunications services

have seen ongoing diversification such as the entry of NCCs into the local telephone business and the start of ISDN services. In recent years, the use of wireless LAN services and IP telephones using broadband lines has taken hold, following DSL, cable Internet, and IMT-2000, and there has been a rapid penetration of telecommunications services based on high-speed large-volume data transmission of images, voice, and the like.

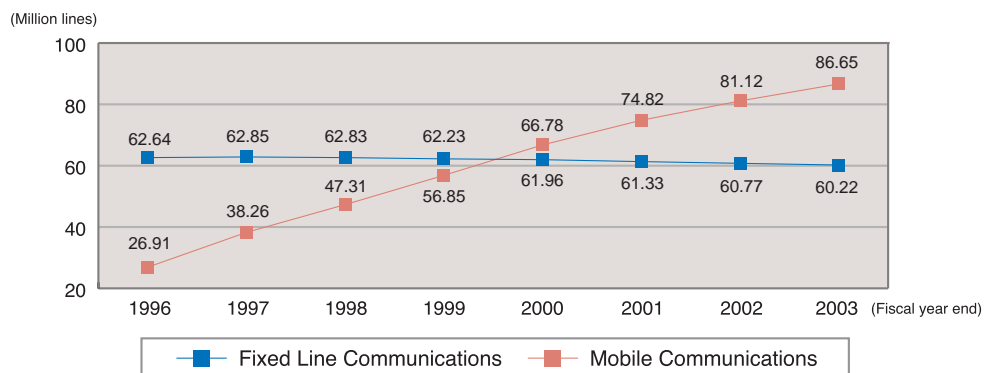
The number of subscribers to subscriber telephone service at the end of fiscal 2003 totaled 51.59 million (a 0.8% increase over the previous fiscal year), showing a continued upward trend from fiscal 2002. When comparing fixed communications (subscriber telephones and ISDN) and mobile communications (mobile phones and PHS), fixed communications remained on a slight downward trend as the previous fiscal year whereas the number of mobile communications subscriptions was on an upward trend, with the gap continuing to widen (**Figure 2-2-1**).

The number of mobile phone subscribers at the end of fiscal 2003 reached 81.52 million, showing a continuing slowdown in growth since fiscal 2001.

3. Telecommunications Rates

According to the "Corporate Service Price Index (CSPI; 1995 base)" compiled by the Bank of Japan,

Figure 2-2-1 Transitions in the Number of Subscribers to Fixed Communications and Mobile Communications



communications rate levels in Japan between 1995 and 2003 showed a larger rate of decline than the CSPI average, both for fixed line and mobile communications. The drop in international call rates in fixed communications (a 51.9 point decrease from 1995) and mobile phone rates in mobile communications (a 52.1 point decrease from 1995) were particularly noticeable (Figure 2-2-2, 2-2-3).

Also, when comparing call rates to those in major cities worldwide, Japan's domestic call services, domestic leased circuit services and mobile phone services all grew cheaper between 1996 and 2002.

4. Status of Use of Telecommunications Media

The total number of communications in Japan in fiscal 2002 was 132.39 billion (a 4.3% decrease from the previous fiscal year), and the total communication time was 5.75 billion hours (a 12.5% decrease from the previous fiscal year), both showing continuing declines. Looking at the figures by originating terminal, the number of calls made from mobile phones continued to rise at 47.45 billion (a 4.9% increase over the previous fiscal year), whereas the number of calls made from fixed line telephones and PHS both declined, at 82.72 billion (a 8.6% decrease from the previous fiscal year) and 2.22 billion (a 15.3% decrease from the previous fiscal year) respectively.

As for the length of time spent on each communication, calls lasting under 30 seconds made up 40% of all calls made from mobile phones, PHS, and subscriber telephones. PHS calls in particular showed a large proportion

of calls lasting under 10 seconds, with calls lasting under 20 seconds accounting for 30% of the total, making it appear that they are mainly used for brief periods of time.

5. Telecommunications Networks

Installation of an optical fiber network nationwide had reached 80% by the end of fiscal 2003 (an 8 point increase over the previous fiscal year), including 94% of cities designated by cabinet ordinance and prefectural capitals (97% coverage in business areas - over 50% of subscribers are businesses), and 86% of cities with populations of over 100,000 (87% in business areas). Installation of the optical fiber network continues at a steady pace, and has reached 59% in other cities but there still remains a gap in the level of installations in major cities and other cities.

6. Complaints and Inquiries on Telecommunications Services

The number of complaints and inquiries on information and communications received during fiscal 2003 at the National Consumer Affairs Center of Japan totaled 448,090, about 2.7 times the fiscal 2002 figure. The increase in Internet-related trouble stands out within the field of information and communications. In concrete terms, many complaints and inquiries were submitted about receiving invoices for use of adult sites that the person had no recollection of visiting, or receiving usage charges for free mobile phone matchmaking-related sites.

Figure 2-2-2 Trends in Price Index for Business-Use Services (fixed communications) *

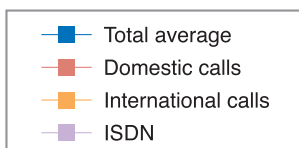
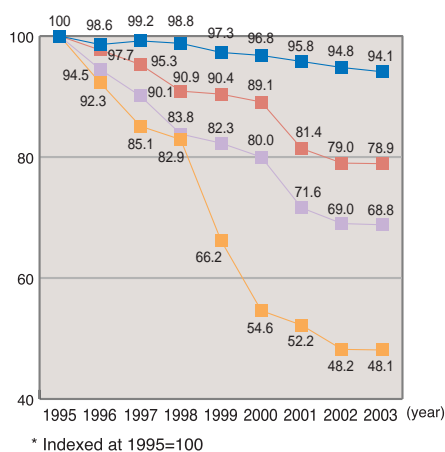
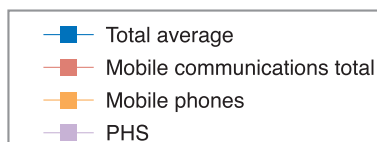
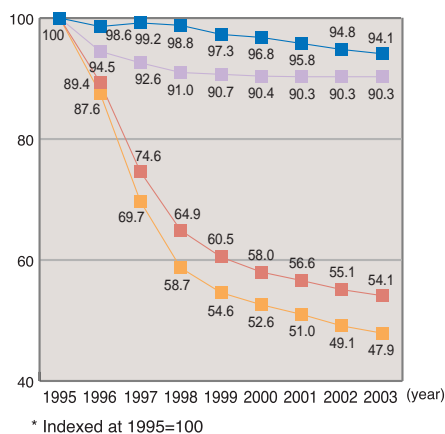


Figure 2-2-3 Trends in Price Index for Business-Use Services (mobile communications) *



Source for Figures 2-2-2 and 2-2-3: Produced based on Bank of Japan's Corporate Service Price Index